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Asbury Automotive Group, Inc. (NYSE:ABG) Q4 2024 Earnings Conference Call January 30, 2025 10:00 AM ET

Company Participants

Chris Reeves - VP, Finance & Treasurer
David Hult - President & CEO
Daniel Clara - SVP, Operations
Michael Welch - SVP & CFO

Conference Call Participants

John Murphy - Bank of America
Rajat Gupta - JPMorgan
Jeff Lick - Stephens
Ryan Sigdahl - Craig-Hallum Capital Group
Bret Jordan - Jefferies
David Whiston - Morningstar

Operator

Greetings, and welcome to Asbury Automotive Group Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Chris Reeves, Vice President of Finance and Treasurer. Thank you. You may begin.

Chris Reeves

Thanks, operator, and good morning. As noted, today's call is being recorded and will be available for replay later this afternoon. Welcome to Asbury Automotive Group's fourth quarter 2024 earnings call. The press release detailing Asbury's fourth quarter results was issued earlier this morning and is posted on our website at investors.asburyauto.com.

Participating with me today are David Hult, our President and Chief Executive Officer; Dan Clara, our Senior Vice President of Operations; and Michael Welch, our Senior Vice President and Chief Financial Officer. At the conclusion of our remarks, we will open up the call for questions and will be available later for any follow-up questions.

Before we begin, we must remind you that the discussion during the call today is likely to contain forward-looking statements. Forward-looking statements are statements other than those which are historical in nature, which may include financial projections, forecasts, and current expectations, each of which are subject to significant uncertainties.

For information regarding certain of the risks that may cause actual results to differ materially from these statements please see our filings with the SEC from time to time, including our Form 10-K for the year ended December 2023 and a subsequently filed quarterly reports on Form 10-Q and our earnings release issued earlier today. We expressly disclaim any responsibility to update forward-looking statements.

In addition, certain non-GAAP financial measures as defined under SEC rules may be discussed on the call. As required by applicable SEC rules, we provide reconciliations of any such non-GAAP financial measures to the most directly comparable GAAP measures on our website. We have also posted an updated investor presentation on our website, investors.asburyauto.com, highlighting our fourth quarter results.

Now, it is my pleasure to hand the call over to our CEO, David Hult. David?

David Hult

Thank you, Chris, and good morning, everyone. Welcome to our fourth quarter earnings call. The performance of our business is a direct reflection of the efforts of our team members who come to work each and every day striving to improve the guest experience. Their hard work translated into strong results for the fourth quarter, and I couldn't be more proud of the team.

After our recent election, we saw an increase in traffic and sales throughout Q4. Overall, volume for same-store new vehicle was up 7% year-over-year, 12% sequentially, and same-store gross profit per new vehicle was up $149 compared with the third quarter of 2024. In 2025, we expect new vehicle gross profit per vehicle somewhere in the $2,500 to $3,000 range.

Our performance in used vehicles is consistent with our shift in strategy in mid-2024, prioritizing profitability over volume given the supply challenges in the used vehicle market. While overall volume was essentially flat, our gross profit per unit increased for the second quarter in a row. These results are particularly impressive when set against the backdrop of rising new vehicle incentives, which create headwinds on used vehicle pricing. We expect inventory challenges to persist throughout 2025.

Shifting to our Parts and Service business. I couldn't be more proud of how the team came together to deliver outstanding results for the quarter. On a same-store basis, gross profit for our fixed operations business was up 11%, and the all-important Customer Pay segment was up 13%. Looking ahead, we remain confident in a mid-single-digit growth rate for customer pay is sustainable. In parallel with our operational success, we remain keenly focused on cost discipline.

Our SG&A costs as a percent of gross profit fell for the second consecutive quarter, coming in at 63% on an adjusted basis. While we are proud of our results to make the business more efficient, our work here is not done. We continue to evaluate other opportunities to deliver a guest experience more efficient -- in a more efficient manner.

Our 4-store pilot with Tekion went live in October, and we're encouraged by the early feedback from our operators. From sales to service, this new platform has the potential to simplify the guest experience, improve team member efficiency, all at a lower cost per transaction.

Now for our consolidated results for the fourth quarter. We generated a record $4.5 billion in revenue, up 18% year-over-year, had a gross profit of $750 million, up 11%, and a gross profit margin of 16.6%. Our same-store adjusted SG&A as a percentage of gross profit was 62%, and it was 63% on an adjusted all-store basis. We delivered a same-store adjusted operating margin of 6% and an all-store adjusted operating margin of 5.7%.

Our adjusted earnings per share was $7.26, and our adjusted EBITDA was $254 million. Finally, thank you to our team members who continue to deliver and find innovative solutions to make our company better. I'm excited about the momentum we've built heading into 2025.

Now Dan will discuss our operational performance. Dan?

Daniel Clara

Thank you, David, and good morning, everyone. I would also like to thank our hard-working team members. You make a difference by providing a high level of service that powers our strong results. Thank you. Now, I'm going to give some updates on our same-store performance, which includes dealerships and TCA on a year-over-year basis unless stated otherwise.

Starting with new vehicles. Same-store revenue was up 8% year-over-year and units were up 7%, driven by strong performance from a number of our luxury brands as well as Hyundai, Kia, General Motors, and Ford. New average gross profit per vehicle was $3,661, a sequential increase from the last time we spoke and in line with the typical seasonality and strength of luxury brands in the fourth quarter. A broad solid performance across our portfolio helped overcome the pressure on gross per unit as it relates to Stellantis, which was down substantially year-over-year. Our same-store new day supply was 47 days at the end of December.

Turning to used vehicles. Fourth quarter unit volume was down slightly versus prior year results. Used retail gross per unit was $1,584, which was $19 higher than third quarter 2024. We believe in prioritizing unit profitability at this point for the used-car supply cycle. At the same time, we are monitoring market conditions that may shape our strategy within the pre-owned business. Our same-store used DSI was 37 day supply, at the end of the quarter.

Shifting to F&I. We earned an F&I per vehicle retail of $2,238, improving sequentially over the third quarter 2024. The deferred revenue headwind of TCA contributed $40 of the $72 decrease in the same-store F&I PVR year-over-year. For the past several quarters, we've discussed the timing of the rollout of Koons in Florida in the first half of 2025 and the impact it would have. Michael will walk you through the additional detail on the financial impact regarding TCA. In the third quarter, our total front-end yield per vehicle was $5,040, reflecting the healthy gross per unit in F&I PVR.

Moving to Parts and Service. As David mentioned, our Parts and Service business excelled in the quarter. Our same-store parts and service gross profit was up 11%. For the quarter, we generated a gross profit margin of 57.9%, an expansion of 224 basis points. This expansion was driven by increased profitability of our higher margin segments, which contributed 124 basis points of the growth.

In addition, I'd like to provide further visibility on the progress being made in our fixed operations by breaking out the components of our Parts and Service business. Our largest portion and most profitable piece of the business, Customer Pay, generated gross profit growth of 13%. In warranty, we were up 26%, driven by increased recalls. Wholesale parts and collision were down 5% and 6%, respectively.

Our Western stores built upon their momentum in customer pay, posting a 21% growth in gross profit year-over-year, and we continue to see strong performance in our Eastern stores as well. And finally, we retailed approximately 12,000 sales through Clicklane in the fourth quarter, a 6% increase over last year. This brought our total units retailed to over 51,000 units for the year 2024, which is a 13% increase versus 2023.

We sold approximately 6,200 new units, an 8% increase year-over-year. New vehicles made up 52% of our Clicklane sales. We view this ability to sell new as an important differentiating factor in the marketplace. I will close by once again expressing my gratitude for our hard-working team members as we focus our efforts to be the most guest-centric automotive retailer.

I will now hand the call over to Michael to discuss our financial performance. Michael?

Michael Welch

Thank you, Dan, and happy birthday. We are pleased with our fourth quarter results. Our teammates execute at a high level and put the guests first, a great way to finish the year and head into 2025.

And now I will discuss our financial performance in the quarter, along with some full year figures. For the fourth quarter, adjusted net income was $143 million and adjusted EPS was $7.26 for the quarter. Adjusted net income for the fourth quarter 2024 excludes net of tax, $11 million of non-cash asset impairments $5 million of losses related to Hurricane Milton and $1 million of income related to the proceeds from the termination of our franchise.

Adjusted SG&A as a percentage of gross profit came in at 63%, a sequential improvement over the third quarter. We were pleased by the team's discipline and agility to contain cost. We anticipate 2025 SG&A as a percentage -- on a percentage basis to be in the mid-60s. Given the projected glide path of new vehicle GPUs and the investments in our business. The adjusted tax rate for the quarter was 24.8%, and we estimate the full-year adjusted tax rate for 2025 to be 25.3%.

TCA generated $20 million of pre-tax income in the fourth quarter and $79 million for the full year. The non-cash deferral impact for the year was a benefit of $6 million or $0.22 per diluted share. We anticipate offering TCA in our Florida market in Q1 and the Koons platform in Q2. These rollouts, along with the increasing vehicle volume levels are likely to be a headwind to earnings. We anticipate 2025 TCA pre-tax income to be approximately $8 million, which includes a non-cash deferral hit of $62 million or $2.35 per diluted share.

We expect the first half of the year to have a small deferral benefit before flipping to a negative deferral impact after the rollout of Florida and Koons. We expect the peak deferral to occur in 2026. We have outlined the estimated impact on EPS over the next several years on Slide 17 of the presentation posted to our website this morning. In addition, we have included an example of a single TCA product lifecycle and the effect it has on cash and GAAP.

Please see the appendix for more detail. We hope this will better illustrate the mechanics of how the deal with TCA flows through our financials. Now moving back to our results. We generated $688 million of adjusted operating cash flow for the full year 2024. Excluding real-estate purchases, we spent $163 million on capital expenditures in 2024. We anticipate approximately $250 million in CapEx spend for both 2025 and 2026, depending on the timing of several significant investments, projects, and permitting.

Free cash flow was $526 million for the year. We ended the quarter with $828 million of liquidity comprised of floorplan offset accounts, availability on both our used line and revolving credit facility, and cash -- excluding cash at Total Care Auto. Our transaction-adjusted net leverage ratio was 2.85 times at the end of December.

Finally, effective capital allocation remains one of our top priorities and we continually evaluate opportunities to grow the business in a disciplined approach. I will close by saying thank you again to all of our teammates who are working to ensure both our current and long-term success.

This concludes our prepared remarks. We will now turn the call over to the operator and take your questions. Operator?

Question-and-Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from John Murphy with Bank of America. Please proceed with your question.

John Murphy

Good morning, guys. A lot of good data points to ask questions about here, but I just -- David, just wanted to focus on GPUs. Obviously, you got the seasonal benefit sequentially here, but I don't know if you can tease out how much of that is the seasonality and how much of this strength in new GPU specifically is a result of the market kind of bottoming out here on pricing and GPUs and maybe we're seeing much more resilience than I think people were fearing. So I mean, how do you think about that? How much was seasonality? How much it is reaching this leveling-off point?

David Hult

Yeah. Thanks, John. It's a great question, and obviously, it's complicated to answer. You look at our day supply, we're on a 49 day supply and new. Within that, we have some brands that have a seven day supply and some that have almost a 90-day supply. What I would tell you and I'll speak specifically to Asbury and reference the past for this, everyone's focused on 2019 numbers and kind of comparing off of that, I've stated it before, I'll state it again, Asbury is a different company today than in '19.

Our model mix is different, our brand mix is different, and we're in different markets. Almost all the acquisitions we've made over the years, in the last five years, their GPUs were accretive to what Asbury was doing. So I think we'll always stay above that number for lack of a better term. As we enter into this year, I think we had the biggest impact with Stellantis based on our size and the number of rooftops we have. It was still a huge material hit to us in the fourth quarter, would have been significantly better if they just performed average for us.

We do believe that they're going to get their act together and improve, which should actually give us a little bit of a tailwind in the future when that happens, it's not there yet. But it's just -- all brands are not floating the same and it's difficult to predict what the future is going to be. We're being optimistic with some of the brands that we have. Toyota and Lexus have a very low day supply, a good gross profit, but so do a lot of other brands.

And we have some import brands that were up 40% year-over-year in the quarter. And some that were backwards 2%. So, it's really mixed right now. And I think there has to be a lot of work put into each of our peers and looking at the brand segments and what they have to really calculate what the future holds. But as we sit here today, we think we're entering a more stable market. I mean, with the new administration, it's a little bit more pro-business with the shift from EVs coming back to ICE, we see these are all benefits.

And again, we're in a situation where the average age of the car is 12.5 years to 13 years old. And you can see in our slide deck, the average miles on a car that we're servicing is over 71,000 now. It keeps creeping up and we have some stores over 90, which means we're doing a great job at retaining them after the warranty is over. So we're optimistic about '25. There will certainly be some headwinds coming our way for sure. We're excited that every month we get closer to Stellantis fixing the issues, which will have an impact on our business.

John Murphy

That's very helpful. And then just a second question on Tekion in the 4-store test. You mentioned a couple of things, I'll paraphrase, efficiency has improved, consumer experience has improved and it's all at a lower cost. So I don't know, maybe you can maybe get into a little bit more specifics about like what the delta is versus your other DMS and what the potential savings are and then maybe business opportunity to drive top-line with Tekion?

David Hult

Yeah. I would tell you without getting into too much particulars, switching from Tekion to CDK, one large pickup is we reduce our plug-ons by about 70%, so you reduce those costs and you reduce the toll fees that the DMS charge for plug on. So that's one large cost-savings there. The other one is, it's a heck of a lot easier to onboard and train someone with Tekion because of the way the software is designed. It just makes you far more efficient and more transparent with the guests.

Our productivity numbers even in the pilot in the first few months where you expect things to be a little bit rocky, our productivity per employee went up in all the stores, some slight, some more than others, but a positive sign. At the end of the day, which is close to two years from now, year and a half anyhow, when we're fully rolled out on Tekion, there will be a material savings in SG&A costs just because of the -- what I mentioned earlier with the software application.

So, too early to say, only a 4-store pilot right now. We're very encouraged. We're getting great feedback from our associates. Some of the leaders said it used to take us five days to onboard a service advisor, we can do it in a day now, because the technology is so efficient, it also empowers our teammates more to handle the guests without going anywhere else.

So transparency efficiency is going to raise our level of service. The ease-of-use is going to make it a big differentiator for our teammates. And to us, the exciting part is, the software is going to increase our productivity, make us more efficient, allowing our folks to really create the experience.

John Murphy

I'm sorry if I could just sneak one in. You mentioned that sort of the Trump bump in showroom traffic and business just in general, a lot of concern that might burn-out over time and that might just be somewhat transitory, what are you seeing in January? I mean, maybe without even giving exact numbers, but just trying to understand if you're seeing that momentum continue into January.

David Hult

January is kind of mixed and kind of like the day supply, it really depends upon the brand. And then just from our geographics, this January has been worse than most January's in the last four or five years with weather. We've had a lot of stores and a lot of our states shutdown for multiple days with weather, so that's going to impact us. If you take those days out, which you can't, we're seeing an increase over prior year, not dramatic, but an increase, but I think January traditionally is a slower month.

But we're encouraged with what we're seeing in parts and service and sales so far. I don't think it's going to burn-out with the new administration. They seem to have an agenda. They seem to be very business-friendly. Going back to that average age of the car where it is, this has the potential to be -- fairly -- I would say, strong but certainly stable year for us in the automotive industry.

John Murphy

Yeah. I guess you probably have a few more of those in front of you, at least in my opinion. Thank you very much, guys. Good quarter. Thank you.

David Hult

Thank you.

Operator

Our next question comes from Rajat Gupta with J.P. Morgan. Please proceed with your question.

Rajat Gupta

Great. Thanks for taking the question. Firstly, just on the SG&A. The 63% level was definitely a very solid number. I was curious if there's any way to unpack that a little bit. If you look at third quarter versus fourth quarter and your gross profit went up $40 million, SG&A went up $10 million, I'm assuming it's primarily given due to some of the CDK-related payments that you had to still make to your salesforce of the lost sales that you did not have to in the fourth quarter, but curious like if you could unpack that on what drove that sequential leverage? And then I just have a follow-up on TCA. Thanks.

David Hult

Rajat, this is David. I'll start and then Michael can come in. We mentioned prior quarter that we're working on cost reductions, so I think part of it is you're seeing the cost reductions, part of it is the increase in gross profit and the incremental benefit we get for every incremental dollar. I would tell you and just not picking on them, but, Stellantis was a major headwind to us materially in the fourth quarter that absolutely hurt SG&A.

So, there's an opportunity for us when Stellantis writes itself, if you will, that we could improve even more. We've been very focused on cost discipline. We think we have our personnel expense at a pretty good number. We have an opportunity to increase our efficiency per associate, which leaves a little bit of savings there as well.

And we've been pretty disciplined over time regarding our operating costs and being conservative. So, while it was a nice job in the quarter, there was -- looking at it from our side, looking at the detail, there was a lot of opportunity there that just with a little bit different brand mix would have had better results.

Michael Welch

Yeah, Rajat. Your other question, second quarter had the impact and a little bit in third quarter for CDK, but not a whole lot. So really it's just the cost savings and the increase in both fixed ops and new vehicle margins that helped the number.

Rajat Gupta

Got it. And just a follow-up on TCA. I mean, just looking at what you had provided us last quarter, looks like the deferral headwinds are a lot higher. Now for '25 and '26, curious what's driving that? Is it just a higher expectation for unit growth or just a roll-out cadence, I don't know, higher claims, just curious why that drag is higher than what you had like three months ago. Thanks.

David Hult

Yeah. So it's kind of a perfect storm of the roll-off of '18 and '19 from the legacy LHM stores is kind of at the end early this year. And as volume comes back up, we're kind of at the low point for the five-year kind of cumulative SAR. And so now you're adding that volume back. So yes, it's higher expectations on SAR and used vehicle growth, the ending of those good years from LHM and then Florida and Koons rolling on. And so you basically lose the good news from the old years and all you have is kind of the deferral hit for growing SAR, growing used cars and Florida and Koons coming fully on.

Rajat Gupta

Got it. And just as a follow-up, just last one, the F&I numbers excluding like the headwind was pretty nice acceleration. Was that just mix or was there like penetration increase on contracts or like with the non-service contract more ancillary stuff, I'm just curious what drove that pretty solid number. Thanks.

Daniel Clara

Hey. Good morning, Rajat. We just continue to focus on our bottom 20%. We continue to focus on the training and believe that to the extent that we continue to make improvements there, the number moves. So, great job to the training team, great job to the field team, but this is history and we got to continue the trend.

David Hult

And, Rajat, just to add on to that, I would say nothing has changed as far as the mix, it's still one-third finance reserve and two-thirds product sales. Probably with the lift in cost of sale a little bit and the down payments coming down a little bit, that gives you a little bit of a tailwind in your PVR.

Rajat Gupta

Got it. Thanks. Congrats on a strong quarter.

David Hult

Thank you.

Operator

Our next question is from Jeff Lick with Stephens. Please proceed with your question.

Jeff Lick

Hi. Good morning, guys. Congrats on a fine quarter and extend my happy birthday wishes to Dan. I was wondering if you could just talk about in terms of the -- everyone's a little more excited about the SAAR environment for 2025, and obviously, that's kind of spurred on by what happened in Q4.

David, just to the extent that obviously to sell more units, you're going to need more inventory, but I'm just curious to kind of the, there's a relationship between the more inventory you add that could put pressure on the GPUs because the marginal sale might not be as profitable as the last sale. Just any thoughts there just on the relationship as we -- as we build inventory and the GPU environment?

David Hult

Jeff, you're spot on. The direct correlation is there. The higher the day supply, the lower the margin. A lot of the OEMs are still being more disciplined than in the years past, which is keeping it tighter, which is great. But certainly, some OEMs have been penalized with that. But even in our circumstance, let's just say, we don't go with the market in the sense that we're more disciplined on our day supply and we have a lower day than the market, it still impacts us because we have to compete within the market.

So the key is really a balanced day supply in the markets that where we do business and there's always conversations with our OEM partners to do the best job we can, and they have really -- as a domestic, General Motors is a great example of one that's done a fantastic job at managing the day supply over time.

Jeff Lick

I guess just in a quick follow-up, David. I'd be curious, as you listen to all the questions and kind of parse through everything that's being written, as you look at 2025, what do you think is the thing that the investment community just underappreciates or maybe doesn't understand where there's the biggest chance for a variance relative to expectations in 2025?

David Hult

Sure. Yeah. It's always subjective. But being an operator, you tend to be optimistic. There has been a depletion of the used vehicles that are out there because of what happened during COVID, we'll start to see a benefit in '26. We -- Asbury has a headwind of TCA, but as you can look in our earnings -- investor deck, there's a huge tailwind a few years down the road that it's going to make us have a material difference, we believe, against our peers.

As it relates to '25, I would tell you the demand is still strong. There's a lot of positive momentum with the new administration. We believe that we can feel it and hear it in our markets. The average age of the car, our mile is going up, the high-margin business we have in parts and service. I think the revenue numbers at parts and service are less relevant than the gross profit numbers and that's where the focus should be.

But then we still have the potential to grow our fixed operations business. So I would tell you like usual, this -- everyone seems to fear their space and always think the worst. I would kind of invert that and look at it with consolidation that's happened with more consolidation coming with EVs being pushed out a little bit, the average age of the vehicle, this looks like a pretty sustainable market for a period of time.

Now that can certainly be thrown off by a World War or something else going on that is not foreseen. But generally speaking, the industry is upbeat about 2025, we're certainly upbeat with what we've done and what we built selfishly. We know Stellantis will fix itself at some point. When it does, it's really going to be a tailwind for us.

Jeff Lick

Great. Well, impressive quarter and best of luck in 2025.

David Hult

Thank you.

Operator

Our next question comes from Ryan Sigdahl with Craig-Hallum Capital Group. Please proceed with your question.

Ryan Sigdahl

Hey. Good morning, guys. It sounds like a lot of optimism kind of with Q4 seeing improved trends, Trump, EV switching back to ICE, etc., etc., etc. Given new vehicle GPU, that glide path lower decelerated in the last two quarters were better-than-expected, and flat-lined a little bit. I guess your commentary on the outlook for 2025, like contract rate was 2,500 to 3,000 GPU, it implies a pretty big acceleration, I guess, lower on the GPU. So I guess, what's -- what are you currently seeing or what's the cause of that?

David Hult

Yeah, Ryan. It's a fair point and fair question. And you're right, based upon the trend, it's probably a little draconian. We anticipate SAR growing a little bit this year. We don't have insight beyond 45-60 days what's coming for inventory and what people are building and how they're going to try and adjust to that new SAR number and what the fleet business is going to look like as well.

So, I would tell you it's probably a conservative number at this point in time and may not happen until later in the year than in the first half of the year. But I think that potential lift in the fourth quarter that we see is really driven by luxury. And the one thing that's true about our space, it's seasonal. It just is. I mean, January is a slower month, November is a slower month, March is a bigger month, there are certain months that you just go with the seasonality of it.

So I think in the short-term, the PVRs will hold up -- the gross per unit will hold up better, but over time, it may adjust a little bit. And from our standpoint, we're about a 40% mix of import, and about a 30% mix in domestic. When you look at our domestic PVR in the tables, overall, it doesn't look bad. I would tell you two of the three brands are real healthy number and the other brand is really dragging that number down. So there's opportunity there.

And as I said earlier, with the acquisitions we made out west in the mountain states with some of these domestic franchises, the GPUs are just higher than what legacy Asbury was, and we think that will stay sustainable going into the future. So probably to sum it up, probably a little bit too aggressive in the comments for the first half of the year, really just trying to predict what's going to happen, which may or may not happen. Michael, anything you want to add that?

Michael Welch

Yeah. I mean, to me that $2,500 to $3,000 is kind of where we think we end up as kind of the new normal. The question is, when is it, mid to late '25 or is it early '26, but that's more of a projection of where we think the PVR shake-out at for kind of that new normal.

Ryan Sigdahl

So just to be clear, that is a new normal steady-state versus that's what you expect on average for the year?

Michael Welch

Correct. That's where we end up at the end.

Ryan Sigdahl

Got it.

Michael Welch

Question mark on when that occurs during '25.

Ryan Sigdahl

Yeah. But that -- the average for the year will be higher just because the starting point where we are today is higher than that.

Michael Welch

Correct.

Ryan Sigdahl

Very good. And then Stellantis, I know a lot of talk and don't want to get too specific on one OEM and what's going on, but it feels like they've made some nice improvements to help dealers out, getting a little more incentives, pricing help, etc., but it sounds like a pretty big headwind in Q4. So I guess given the changes that were made in the fall, what else needs to happen there, or I guess, was it just kind of churning through and cycling and getting those initiatives kind of running to get that in a better place?

David Hult

Ryan, this is David. I'll start and then Dan can jump in. I would tell you they brought the inventory day supply down, which was way out of control, which is great, still too high, but a big improvement, but they had to throw a lot more incentives and we had the wrong inventory on the ground and not just us, our peers as well, competitors. So you had to work through a lot of selling the vehicles that really weren't the right vehicles for the market with heavy incentives. So it's still very low GPUs.

As we move forward with better inventories more in the sense of the right models with the right equipment at the right price has the potential to help GPUs. So there's upside there with them bringing the right vehicles and right equipment with more gross because it will be higher demand. Fourth quarter was more about getting the inventories down and pushing through with the incentives, but really selling a lot of inventory that wasn't highly desirable to the consumer.

Daniel Clara

Bret, the only -- I'm sorry, Ryan. The only item that I would add is, there were some restrictions anytime that we had an allocation on what was available or not available to order. We're starting to see some of those restrictions lifted, which allows us to order the cars with the options that the consumer wants and the turn is faster. So from a short-term as that starts to kick in, we're excited about that. The overall sentiment from the operators when I speak to them at the Stellantis stores that they feel a shift. But it's not going to happen overnight.

There's also -- they abandoned some products, some models that were quick volume, because of that, we lost market-share with Stellantis and all that is being talked about, being brought back, but that is going to take some time. So now essentially just -- we just got to put to fruition everything that has been laid out by the Stellantis leadership team and we need to execute at the store level as it comes around.

Ryan Sigdahl

Helpful. Thanks, David, Michael, and happy birthday, Dan. That's it for us.

David Hult

Thank you,

Daniel Clara

Thank you.

Operator

[Operator Instructions] Our next question comes from Bret Jordan with Jefferies. Please proceed with your question.

Bret Jordan

Hey. Good morning, guys.

David Hult

Good morning.

Bret Jordan

To flog Stellantis one more time, I guess following up on the last question, is it feel like the GPU is sort of bottomed here if their production mix is more in line with customer demand and volumes are coming down from an inventory standpoint, it's not continuing to step down, but kind of flatlining?

David Hult

It's a great question. No way of knowing the future, but in my opinion, yes, I would say the fourth quarter was the low point in pushing through the inventory that was overpriced and really not as desirable. So, there should be some upside from there. Dan, do you...

Daniel Clara

I agree.

David Hult

Yeah.

Bret Jordan

Okay. And then a question on the customer pay service, obviously, really strong. It doesn't appear you're driving that with promotions given the margins are strong, but sort of what do you attribute the strength in customer pay to, is it capacity expansion or somehow better reaching the customer post-warranty?

Daniel Clara

Yeah, I'll start Bret. Good morning. This is Dan. I'll start it and then David can add whatever I missed. There has been -- we talked about this in several quarters about the whole cycle of the guest experience and it all starts with that proper multipoint inspection and then the tools that we installed about a year ago in our Western stores that were already being utilized in the -- in the legacy stores. So a big part of what you're seeing there is just a more efficient way to inspect the cars, a more efficient in a more guest-centric way to present the recommended services to the consumer in a more efficient way for them to approve or decline that service.

In addition to that, the store level is doing a pretty good job of retaining customers, as David mentioned, our average mileage are 71,000 miles. So that means they're doing a good job retaining the guest after the warranty expires. And with that higher mileage, it comes with maintenance items that break and that need to be taken care of and repairs or what have you. So it's a combination of training, execution of the tools, and then -- and ultimately delivering a much more efficient guest experience.

David Hult

And to add on top of that, I would tell you, we've been fortunate with our hiring over the last year and a half of adding some great leadership into our Western stores. We've had it in our Eastern stores all along and people make the difference in this business, and some of our new leadership that has come in has just made a material difference in really driving better results. And there's still -- the good news is there's still good upside for us.

For the year overall, we had a 5% increase in tech headcount, which is a benefit to us, but we still have a lot of opportunity to grow our space without adding brick-and-mortar. So again, it's on us to offer a higher level of service, get better at what we do, and I think we're making great strides in that, and you can see the material impact the team has had out West.

Bret Jordan

Thank you.

David Hult

Thank you.

Operator

Our next question comes from David Whiston with Morningstar. Please proceed with your question.

David Whiston

Thanks. Good morning. Just on the possibility of Trump tariff threats, the 25% and whatnot, I mean, as a dealer, you're the importer here, do you have any kind of contingency plan or have you had discussions with the OEMs on sharing the cost burden, or are you just going to have to either eat it or pass it all through to the consumer if it happens?

David Hult

Yeah, David. This is David, and others can jump in. We haven't had any conversations with the manufacturers yet. I think it's too early to call. A lot of the products are made in the U.S. even on the import side. We have a healthy parts and service business with the average age of the car out there and the used car businesses out there as well.

I think always at the end of the day, we fear something more than we should and it tends to work itself out. And I don't pretend to have any inside knowledge because I don't, but I assume this is going to be one. It's going to get worked out. I'm sure the administration understands how important the retail automotive space is to the GDP number.

David Whiston

Thank you. And on affordability post-election, have you noticed any kind of, I guess, reduction in consumers' concerns about affordability because they feel better post-election or is affordability still a really major problem for both new and used?

Daniel Clara

David, good morning. This is Dan. Back to David's comment, we did see an uptick after the election and it feels like the affordability is a question and issue is still up there, but the sentiment is much more positive and customers are, as we saw it, there was pent-up demand and it took place in the fourth quarter.

David Hult

And David, I would add to that, in the fourth quarter because it's always strong with luxury. We had the opportunity to have a better quarter than what we did. We were limited by product availability. Our luxury customers are -- they can handle the adversity of a down-market or anything else. The demand was there. In some cases, we just didn't have the product to sell them and there was more opportunity, which really held up the margin as you can see with luxury.

David Whiston

And what was the $11 million non-cash impairment for?

Daniel Clara

So each year, at the end of the year, we have to do our annual impairment test and go through some stores. And so we had some stores out west that we had some impairments on just as we went through kind of the cash flow model for those stores. So about five stores had impairments this year.

David Whiston

Thank you.

David Hult

Thank you.

Operator

We've reached the end of the question-and-answer session. I'd now like to turn the call back over to David Hult for closing comments.

David Hult

Thank you, operator. This concludes the call today. We appreciate your participation and look forward to talking -- discussing the Q1 with you in the future. Have a great day.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.